**SUNRISE 2 TERM 2 2022 F4 BUSINESS STUDIES M-SCHEME**

1.(a) **Negative effects of any five macro environmental factors on a business**

1. Demographic population/population changes – Declining population leads to reduced demand for a product
2. Economic factors (money) – if the people’s purchasing power declines, demand for the products may decline.
3. Social cultural factors – if the customers/ values/beliefs shared by a society protest a given product less of it will be ought.
4. Political factors – Political instability may lead to destruction of business property
5. Legal factors such/changes in laws and regulations – Legislations against a business may lead to its closure
6. Physical factors – Adverse climate may lead to reduced supply of raw material
7. Competitors – increased competition may take away business customers leading to reduced sales
8. Intermediaries should be carefully chosen and monitored otherwise the goods and services produced by the business may fail to reach the intended users leading to loss of market
9. Technological changes – Outdated technology leads to production of relatively low quality products hence reduced demand..

**(b) Explain five uses of National Income statistics to an economy. (10marks)**

1. Indicator/measure of standard of living/ an improvement/increase in national incoming indicates higher/improved standards of living/improved welfare.
2. Comparing standards of living between countries. Those with higher national income are believed to have higher standards of living.
3. Measure/indicator of economic growth/assessing performance of the economy over time. The period with higher national income is considered better.
4. Economic planning by comparing performance in different sectors for better /efficient allocation of resources.
5. Attract investment/for investment decision. Data obtained can be used by entrepreneurs to make decisions on which sector to invest in.
6. Provide information on distribution/contribution of national income. This helps the government to address income disparities.

Calculate/determine per capita income by dividing national income by population. 5x2=10

2.

(a) **Features of a good filling system**

1. Cost effectiveness – cheap /economical in terms of installation and maintenance
2. Safety – ensure documents are secured against theft/damage
3. Compactness – ensure minimal sue of space
4. Simplicity – easy to understand
5. Accessibility – ensure easy location/retrieval of documents
6. Elasticity – easy to expand whenever need arises
7. Confidentiality – guard against unauthorized access to documents

**2b.**

Sales Journal🗸

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Date | Particulars | Inv. No. | L.F | Amount |
| 2010  Sept 2  2  23  23  23 | Chui  Jane  Chui  Tom  Joseph  Total credit sales to be posted to sales a/c (cr) in the general ledger. |  | SL1  SL2  SL1  SL3  SL3 | 12,000🗸  16,000🗸  8,000🗸  11,000🗸  13,000🗸  60,000🗸 |

Purchases Journal🗸

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Date | Particulars | Inv. No. | L.F | Amount |
| Sept 8  15  15 | Shah Traders  Tanui  Peter  Total credit purchases to be posted to purchases a/c (Dr) in the general ledger. |  | PL1  PL2  PL3 | 40,000🗸  34,000🗸  31,050🗸  105,050🗸 |

Sales Returns Journal🗸

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Date | Particulars | Inv. No. | L.F | Amount |
| Sept 12  27 | Chui  Tom  Total Sales returns to be posted to sales return a/c (Dr) in the general ledger. |  | SL1  SL3 | 2,000🗸  2,000🗸  4,000🗸 |

Purchases Returns Journal🗸

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Date | Particulars | Inv. No. | L.F | Amount |
| Sept 20  20 | Shah Traders  Tanui  Total Purchases returns to be posted to purchases return a/c (Cr) in the G.L |  | PL1  PL2 | 6,000🗸  3,000🗸  9,000🗸 |

(20 ticks x ½ = 10mks)

(b) **Purchases journals**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Date | Details | Invoice Number | Ledger Folio | Amount Kshs. |
| 2010  May 1  1  1  6  6  6  18 | Ben  Martha  Atuti  Masha  Martha  Saudoka  Dume  Total posted to purchases A/C (Dr) |  |  | 25,000  30,000  40,000  10,000  35,000  50,000  70,000  260,000 |

**Sales journals**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Date | Details | Invoice Number | Ledger Folio | Amount Kshs. |
| 2010  May 4  4  8  8  8  26 | Kola  Otieno  Kaka  Kola  Kaki  Kola  Total posted to sales A/C (Dr) |  |  | 16,000  20,000  60,000  26,000  45,000  54,000  221,000 |

**Purchase returns journals**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Date | Details | Invoice Number | Ledger Folio | Amount Kshs. |
| 2010  May 13  13  13 | Ben  Masha  Saudoka  Total posted to purchases returns A/C (Dr) |  |  | 4,000  1,500  3,000  8,500 |

**Sales returns journals**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Date | Details | Invoice Number | Ledger Folio | Amount Kshs. |
| 2010  May 22  22  31  31 | Kola  Otieno  Kaki  kola  Total posted to purchases returns A/C (Dr) |  |  | 1,000  2,400  2,000  4,000  9,400 |

**3 a)..Explain five principles of insurance.** (**10marks)**

**Principle of utmost good faith.**

* This principle requires a person taking out insurance cover to disclose all the necessary information to the insurer when filing proposal form.

**Principle of insurable interest**

* One should only insure property he/she stands to suffer a direct financial loss in case the risk insured against occurs.

**Principal of indemnity**

* This aims at compensating the insured and not benefiting from the misfortune. It is putting one in original financially state before risk occurred.

**Principal of proximate cause.**

* This states that for the insured opt be compensated there must be a very close relationship between loss suffered and risk insured against.

**Principle of subrogation**

Under this principle, whatever remains of the property insured after the insured has been compensated becomes the property of the insurer.

**Principle of contribution**

This operates in a situation where the insured has taken policies with two or more insurance companies hovering the same risk and in event of loss the companies contribute equally to indemnify the insured.

Any 5 points @ 2 mks = 10mks

**b) Explain five problems a developing country will encounter in the implementation stage of development planning. (10marks)**

**Reduce on donor funding**

* The less developed countries that base their development plans on expected aid form develop countries may find it difficult when such aid is denied.

**Lack of domestic resources**

* Lack of skilled personnel, finance and capital equipment may hamper implementation

**Failure to invoice local people in planning**

* If local people expected to implement plans are left out they may fall to support the plan at implementation.

**Natural calamities**

* Direct or indirect natural calamities like floods or drought may make it difficult to implementation projected plans as funds are diverted to handle calamities.

**Inflation**

* Increased prices may negatively affect implementation.

**Over ambitious plans**

* Plans meant to impress donors so that they release foreign aid may be unrealistic and difficult to implement.

**Lack of cooperation among the executing parties**

* Lack of cooperation among expected experts may lead to conflict and result to difficulty in implementation

**Lack of political will**

* If there is no political commitment to implement the plans will remain in paper plan and fall to be executed.

Any 5 points @ 2 mks = 10mks

**4.a) Kenya experienced a general increase in prices of goods and services due to Covid-19 pandemic. Explain five negative effects of this to the Kenyan economy (10marks).**

i. Reduction in profits

- Rise in prices of commodities may lead to reduced sales volume for firms as many customers may not afford the high prices. This in turn may reduce the firms’ profits.

ii. Discourages savings

- During inflation, people tend to spend most of their earnings leaving little or nothing to save.

iii. Retardation of economic growth

- Inflation may create a situation where investors are not willing to take risks, invest in new ventures, expand production or hire more workers. This would bring about retardation in economic growth.

iv. Loss to creditors

- Creditors lend out when the value money is high. At time of payment, the creditors receive less in real money terms since the money value has been eroded by inflation.

v. Decline in standards of living

- During inflation, consumers’ purchasing power decrease. This is so especially for people who earn fixed incomes such as pensioners. The reduction in purchasing power bring about a decrease in standards of living.

vi. Loss of confidence in the monetary system

- High levels of inflation may lead to loss of confidence in money both as a medium of exchange and a store of value. This may lead to collapse of the monetary system.

vii. Wastage of time

- Inflation can be wasteful in that individuals and firms may waste a lot of time shopping around for reasonable prices. The time so wasted can be an extra cost to the individual/firm.

viii. Conflicts between employers and employees

ix. Adverse effects on the balance of payments

Any 5 @ 2 = 10marks

**(b) Causes of unfavorable balance of payment for most developing countries.**

i. Reliance on Primary products which fetch low prices in the international market.

ii. Heavy importation of finished goods, whose value are very high hence spend more on them.

iii. Low level of technology which compromises the quality of their exports and lowering their value.

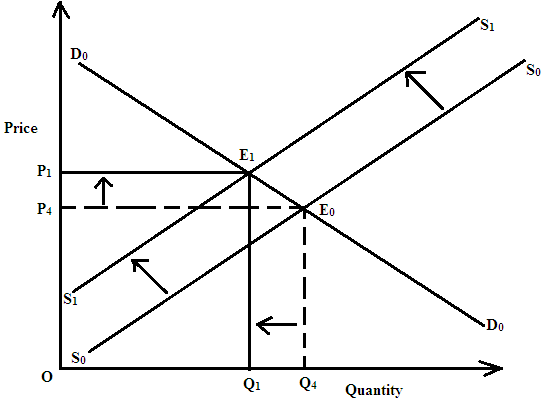
iv. Too much reliance on foreign borrowing-Such loans are repaid with heavy interest.

v. Susceptibility to natural calamities like drought which adversely affect their production.

vi. Preference towards foreign goods – most consumers in developing countries prefers foreign goods in the belief that they are of better quality.

vii. Unfavorable world economic order - Developing countries have very little say in international trade forums and cannot influence the world economic order in their favors.

**5.(A) With the aid of a suitable diagram, explain the effects of a decrease in supply on the equilibrium price and quantity.**



✓

✓

✓

✓

✓

✓

✓

✓

✓

✓

**Diagram 8 marks then explanation 2 marks= 10 marks**

**b) Explain five roles of central bank in an economy (10 marks)**

1. Issue of currency; it issues new currencies both notes and coins into the economy and also replaces worn out currencies
2. Banker to commercial banks; accept deposits from commercial banks for safe keeping of their money.
3. Banker to the government; it provides banking services to the government by receiving deposits and making payments on behalf of the government.
4. Maintains an account for foreign exchange services. It sells foreign exchange to commercial banks and other institutions dealing with foreign exchange.
5. Advisor to the government; it gives advice to the government on monetary/economic issues
6. Managing the public debt; money borrowed by the government from internal and external sources is administered and repayments made through the central bank.
7. Lender of the last resort to commercial banks when they have no other sources from which they can borrow.
8. Controls commercial banks; it has the authority and power to direct, control and supervise financial activities of commercial banks and other financial institutions.
9. Research and statistics; it collects and publishes financial data which is vital for the country’s economy.
10. Acts as a link bank to other central banks and international financial institutions for the purpose of settling financial transactions arising from economic activities.
11. Credit control; the central bank regulates the amount of money in the economy by controlling the lending activities of commercial banks and other financial institutions.
12. Acts as a central clearing house to facilitate the clearing of cheques arising from inter-bank activities.

**(Any 5 x 2 = 10 marks)**

**6(a) Demerits of direct taxation. ( 10mrk)**

1. Encourage avoidance and evasion; it can be easily evaded by tax payers by either falsifying information about their incomes or just ignoring payments.
2. Deterrent to savings as it reduces peoples’ ability to save due to less disposable incomes left with them.
3. Deterrent to work; e.g. progressive tax on personal incomes would make an individual opt for leisure time instead of working overtime to get extra income. This is because the more they earn the more tax they pay.
4. Deterrent to investment; heavy taxation on profits may deter entrepreneurs from investing in highly risky but profitable areas. This is because an entrepreneur can only invest in risky areas if there is a possibility of making huge profits.
5. May inconvenience the tax payer especially where he/she has to comply with complicated formalities relating to sources of income as well as expenses incurred while generating it.This may make the tax payers to involve experts which is an extra cost.
6. Not imposed on all citizens as low income earners who do not fall within the tax brackets are exempted hence not contributing anything to the state in form of tax.

**(Any 5 x 2 = 10 marks)**

**(b) Masaku Investments books of original entry**

**SALES JOURNAL**

|  |  |  |  |
| --- | --- | --- | --- |
| **DATE** | **DETAILS** | **INVOICE NO.** | **AMOUNT** |
| 2016 May  3  22 | Kyalo  Musyoki  Total Posted to Sales a/c (Cr) |  | Shs. 60,000✓  150,000✓    210,000 |

**PURCHASES JOURNAL**

|  |  |  |  |
| --- | --- | --- | --- |
| **DATE** | **DETAILS** | **INVOICE NO.** | **AMOUNT** |
| 2016 May 8  16 | Musau  Musau  Total Posted to Purchases A/C (Dr) |  | Shs. 120,000✓  160,000✓    210,000 |

**PURCHASES RETURNS JOURNAL**

|  |  |  |  |
| --- | --- | --- | --- |
| **DATE** | **DETAILS** | **INVOICE NO.** | **AMOUNT** |
| 2016 May 12 | Musau  Total posted to purchases returns A/c (cr) |  | Shs. 6,000✓    6,000 |

**SALES RETURNS JOURNAL**

|  |  |  |  |
| --- | --- | --- | --- |
| **DATE** | **DETAILS** | **INVOICE NO.** | **AMOUNT** |
| 2016 May 24 | Kyalo  Total Posted to Sales  Returns A/C (Dr) |  | Shs. 10,000✓    10,000 |

**GENERAL JOURNAL**

|  |  |  |  |
| --- | --- | --- | --- |
| **DATE** | **DETAILS** | **DR.** | **CR.** |
| 2016 May 23 | Motor Van A/c.  Mashiriki Motors A/c. (Being purchase of Motor Vehicle on credit) | 3,200,000✓ | 3,200,000✓ |
| 2016 May 29 | Chap Chap Ltd A/c.  Equipment  (Being sale of Equipment on credit) | 840,000✓ | 840,000✓ |

10 ticks x 1 = 10 marks

**NB: For the general journal, the candidate must indent the account to credit to earn the mark.**